

House Study Bill 187 - Introduced

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON
APPROPRIATIONS BILL BY
CHAIRPERSON GRASSLEY)

A BILL FOR

1 An Act relating to state revenue and finance by limiting the
2 total amount of certain tax expenditures that may be claimed
3 in a fiscal year, providing for transfers to the taxpayers
4 trust fund, and eliminating the refundability of Iowa tax
5 credits, and including effective date and applicability
6 provisions.
7 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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DIVISION I

TAX EXPENDITURE LIMITATION

Section 1. Section 8.57E, subsection 2, Code 2017, is amended to read as follows:

2. a. Moneys in the taxpayers trust fund shall only be used pursuant to appropriations or transfers made by the general assembly for tax relief.

b. During each fiscal year beginning on or after July 1, 2014, in which the balance of the taxpayers trust fund equals or exceeds thirty million dollars, exclusive of the balance of the tax expenditure limitation account in subsection 2A, there is transferred from the taxpayers trust fund to the Iowa taxpayers trust fund tax credit fund created in section 422.11E, the entire balance of the taxpayers trust fund, except the balance of the tax expenditure limitation account in subsection 2A, to be used for the Iowa taxpayers trust fund tax credit in accordance with [section 422.11E, subsection 5](#).

Sec. 2. Section 8.57E, Code 2017, is amended by adding the following new subsection:

NEW SUBSECTION. 2A. A tax expenditure limitation account shall be created as a separate account in the taxpayers trust fund that shall consist of transfers made pursuant to section 421C.6, and moneys in the account shall not be commingled with other moneys within the taxpayers trust fund. Interest or earnings on moneys deposited in the account shall be credited to the account.

Sec. 3. Section 8.57E, subsection 4, Code 2017, is amended to read as follows:

4. Notwithstanding [section 12C.7, subsection 2](#), interest or earnings on moneys deposited in the taxpayers trust fund shall be credited to the fund and, if applicable, to the appropriate account within the fund.

Sec. 4. NEW SECTION. 421C.1 Tax expenditure defined.

Any reference to "tax expenditure" in this chapter includes all of the following:

- 1 1. *Withholding tax credits.*
- 2 *a.* The accelerated career education program job credit
- 3 allowed under section 260G.4A.
- 4 *b.* The new jobs credit from withholding allowed under
- 5 section 15A.7, or section 15E.197, Code 2014, or section
- 6 260E.5.
- 7 *c.* The targeted jobs withholding tax credit allowed under
- 8 chapter 403.19A.
- 9 2. *Tax credits.*
- 10 *a.* The agricultural assets transfer tax credit allowed under
- 11 sections 16.80 and 422.11M, and section 422.33, subsection 21.
- 12 *b.* The custom farming contract tax credit allowed under
- 13 sections 16.81 and 422.11M, and section 422.33, subsection 21.
- 14 *c.* The farm to food donation tax credit allowed under
- 15 chapter 190B, section 422.11R, and section 422.33, subsection
- 16 30.
- 17 *d.* The charitable conservation contribution tax credit
- 18 allowed under section 422.11W and section 422.33, subsection
- 19 25.
- 20 *e.* The school tuition organization tax credit allowed under
- 21 section 422.11S and section 422.33, subsection 28.
- 22 *f.* The tuition and textbook tax credit allowed under section
- 23 422.12, subsection 2, paragraph "b".
- 24 *g.* The volunteer fire fighter and emergency medical services
- 25 personnel tax credit allowed under section 422.12, subsection
- 26 2, paragraph "c".
- 27 *h.* The reserve peace officer tax credit allowed under
- 28 section 422.12, subsection 2, paragraph "d".
- 29 *i.* The adoption tax credit allowed under section 422.12A.
- 30 *j.* The child and dependent care tax credit allowed under
- 31 section 422.12C.
- 32 *k.* The early childhood development tax credit allowed under
- 33 section 422.12C.
- 34 *l.* The earned income tax credit allowed under section
- 35 422.12B.

- 1 *m.* The geothermal heat pump tax credit allowed under section
2 422.11I.
- 3 *n.* The geothermal tax credit allowed under section 422.10A.
- 4 *o.* The solar energy system tax credit allowed under section
5 422.11L, section 422.33, subsection 29, section 422.60,
6 subsection 12, and section 533.329, subsection 2, paragraph
7 "1".
- 8 *p.* The wind energy production tax credit and the renewable
9 energy production tax credit allowed under chapters 476B and
10 476C, section 422.11J, section 422.33, subsection 16, section
11 422.60, subsection 7, section 432.12E, and section 437A.17B.
- 12 *q.* The biodiesel blended fuel tax credit allowed under
13 section 422.11P and section 422.33, subsection 11C.
- 14 *r.* The E-15 plus gasoline promotion tax credit allowed under
15 section 422.11Y and section 422.33, subsection 11D.
- 16 *s.* The E-85 gasoline promotion tax credit allowed under
17 section 422.11O and section 422.33, subsection 11B.
- 18 *t.* The ethanol promotion tax credit allowed under section
19 422.11N and section 422.33, subsection 11A.
- 20 *u.* The renewable chemical production tax credit allowed
21 under sections 15.319 and 422.10B, and section 422.33,
22 subsection 22.
- 23 *v.* The endow Iowa tax credit allowed under sections 15E.305
24 and 422.11H, section 422.33, subsection 14, section 422.60,
25 subsection 6, section 432.12D, and section 533.329, subsection
26 2, paragraph "h".
- 27 *w.* The investment tax credit allowed under section 15.333,
28 15E.196, Code 2014, section 15E.193B, subsection 6, Code 2014,
29 section 422.11F, subsection 2, section 422.33, subsection 12,
30 paragraph "b", section 422.60, subsection 5, paragraph "b", and
31 section 533.329, subsection 2, paragraph "e".
- 32 *x.* The insurance premiums tax credit allowed under section
33 15.333A, section 15E.196, Code 2014, section 15E.193B, Code
34 2014, and section 432.12C, subsection 2.
- 35 *y.* The new jobs tax credit allowed under section 422.11A,

1 and section 422.33, subsection 6.

2 *z.* The innovation fund investment tax credit allowed under
3 sections 15E.52 and 422.11Z, section 422.33, subsection 13,
4 section 422.60, subsection 11, section 432.12M, and section
5 533.329, subsection 2, paragraph “j”.

6 *aa.* The Iowa fund of funds tax credit allowed under sections
7 15E.66 and 422.11Q, section 422.33, subsection 20, section
8 422.60, subsection 9, section 432.12I, and section 533.329,
9 subsection 2, paragraph “g”.

10 *ab.* The venture capital fund investment tax credit allowed
11 under section 15E.51, Code 2009, section 422.11G, Code 2009,
12 section 422.33, subsection 13, Code Supplement 2009, section
13 422.60, subsection 6, Code Supplement 2009, section 432.12B,
14 Code 2009, and section 533.329, subsection 2, paragraph “i”,
15 Code Supplement 2009.

16 *ac.* The workforce housing investment tax credit allowed
17 under section 15.355, subsection 3, section 422.11C, section
18 422.33, subsection 15, section 422.60, subsection 13, section
19 432.12G, and section 533.239, subsection 2, paragraph “k”.

20 *ad.* The research activities credit and supplemental research
21 activities credit allowed under section 15E.196, Code 2014,
22 sections 15.335 and 422.10, and section 422.33, subsection 5.

23 *ae.* The assistive device tax credit allowed under section
24 422.33, subsection 9.

25 *af.* The corporate tax credit for certain sales taxes paid by
26 third-party developers allowed under section 15.331C, section
27 422.33, subsection 19, section 422.60, subsection 8, section
28 432.12H, and section 533.329, subsection 2, paragraph “d”.

29 *ag.* The historic preservation and cultural and entertainment
30 district tax credit allowed under chapter 404A, section
31 422.11D, section 422.33, subsection 10, section 422.60,
32 subsection 4, and section 432.12A.

33 *ah.* The redevelopment tax credit allowed under chapter
34 15, subchapter II, part 9, section 422.11V, section 422.33,
35 subsection 26, section 422.60, subsection 10, section 432.12L,

1 and section 533.329, subsection 2, paragraph "i".

2 *ai.* The investment tax credit allowed under section 15E.43,
3 section 422.11F, subsection 1, section 422.33, subsection 12,
4 section 422.60, subsection 5, paragraph "a", section 432.12C,
5 subsection 1, and section 533.329, subsection 2, paragraph "f".

6 3. *Sales and use tax refunds.*

7 *a.* The high quality jobs program sales and use tax refund
8 allowed under section 15.331A.

9 *b.* The enterprise zone program sales and use tax refund
10 allowed under section 15E.196, Code 2014, and section 15.331A.

11 *c.* The enterprise zone program eligible housing business
12 sales and use tax refund allowed under section 15E.193B,
13 subsection 6, Code 2014.

14 *d.* The workforce housing tax incentive program sales and use
15 tax refund allowed under section 15.355, subsection 2.

16 *e.* The wind energy production tax credit and the renewable
17 energy production tax credit sales and use tax refunds allowed
18 under chapters 476B and 476C, and section 423.4, subsection 4.

19 Sec. 5. NEW SECTION. **421C.2 Tax expenditure limitation and**
20 **disallowance — when considered claimed — tax expenditure claim**
21 **tracking.**

22 1. *Tax expenditure limitation.* Notwithstanding any other
23 provision of law to the contrary, all of the following shall
24 apply to tax expenditures claimed during fiscal years beginning
25 on or after July 1, 2017:

26 *a.* The aggregate amount of tax expenditures claimed during
27 the fiscal year beginning July 1, 2017, and ending June 30,
28 2018, shall not exceed four hundred million dollars.

29 *b.* The aggregate amount of tax expenditures claimed during
30 the fiscal year beginning July 1, 2018, and ending June 30,
31 2019, shall not exceed three hundred ninety million dollars.

32 *c.* The aggregate amount of tax expenditures claimed during
33 the fiscal year beginning July 1, 2019, and ending June 30,
34 2020, shall not exceed three hundred eighty million dollars.

35 *d.* The aggregate amount of tax expenditures claimed during

1 each fiscal year beginning on or after July 1, 2020, shall not
2 exceed three hundred seventy million dollars.

3 2. *Excess tax expenditure claims disallowed.*

4 a. Notwithstanding any other provision of law to the
5 contrary, if in any fiscal year the maximum aggregate limit
6 for tax expenditure claims described in subsection 1 for that
7 fiscal year is reached, any tax expenditure considered to be
8 claimed in that fiscal year but after the date the limit is
9 reached shall be disallowed.

10 b. If in any fiscal year the maximum aggregate limit for
11 tax expenditure claims described in subsection 1 for that
12 fiscal year is exceeded, all tax expenditures considered to
13 be claimed on the date the maximum aggregate limit for tax
14 expenditure claims described in subsection 1 is exceeded shall
15 be reduced in a prorated fashion, if necessary, until the
16 maximum aggregate limit for the fiscal year is reached.

17 3. *When tax expenditure considered received.* The department
18 of revenue shall consider tax expenditure claims in the order
19 they are received by the department. For purposes of this
20 chapter, a tax expenditure claim shall be considered received
21 by the department when the final, completed withholding return,
22 tax return, or sales and use tax refund claim form on which the
23 tax expenditure is reported is received by the department.

24 4. *When tax expenditure considered claimed.*

25 a. For purposes of this chapter, a tax expenditure shall
26 only be considered claimed to the extent the claim would reduce
27 tax liability or be issued as a refund.

28 b. For purposes of this chapter, a tax expenditure shall be
29 considered claimed on the date it is accepted by the department
30 of revenue. For purposes of this chapter, a tax expenditure
31 claim shall be considered accepted by the department when the
32 department determines that the final, completed withholding
33 return, tax return, or sales and use tax refund claim form
34 on which the tax expenditure is reported is complete and
35 capable of being processed by the department, and if the tax

1 expenditure appears valid on its face.

2 *c.* Notwithstanding paragraph “*b*”, if for a fiscal year the
3 maximum aggregate limit for tax expenditure claims described
4 in subsection 1 is reached, any tax expenditure reported
5 on a withholding return, tax return, or sales and use tax
6 refund claim form that was due during that fiscal year,
7 including extensions if applicable, but that is received by the
8 department of revenue in a subsequent fiscal year, shall be
9 considered claimed in the fiscal year in which the return or
10 form was due, but after the date the maximum aggregate limit
11 had been reached, and shall be disallowed.

12 *d.* If a tax expenditure is considered by the department
13 of revenue to be claimed for purposes of this chapter, and
14 the taxpayer later files an amendment withholding return, tax
15 return, or sales and use tax refund claim form that increases
16 the amount of that tax expenditure, the tax expenditure
17 reported on the amended return or form shall be considered a
18 new tax expenditure claim made on the date it is accepted by
19 the department to the extent it exceeds the amount of the tax
20 expenditure reported on the previous return or form. However,
21 if the original tax expenditure claim was disallowed pursuant
22 to this section, the entire tax expenditure claim reported on
23 the amended return or form shall be disallowed. If the tax
24 expenditure amount reported on the amended return or form is
25 less than the tax expenditure amount reported on the previous
26 return or form, the total amount of tax expenditure claims
27 considered to be made in a previous fiscal year for purposes of
28 this chapter shall not decrease.

29 *e.* If after acceptance of a tax expenditure claim such
30 claim is later increased or decreased following an audit or
31 other similar review of the tax expenditure claim by the
32 department of revenue, that tax expenditure claim increase or
33 decrease shall not cause the total amount of tax expenditure
34 claims considered to be made in a fiscal year, as calculated
35 by the department for purposes of this chapter, to increase or

1 decrease.

2 *f.* For purposes of this chapter, a tax credit allowed a
3 partnership, limited liability company, S corporation, estate,
4 trust, or other entity electing to have the income taxed
5 directly to the individual shall be considered to be claimed
6 when the department of revenue determines that the individual's
7 final, completed tax return on which the tax credit is reported
8 is complete and capable of being processed by the department,
9 and if the tax credit appears valid on its face.

10 5. *Tax expenditure claim tracking.* The department of
11 revenue shall develop a system to track the amount of tax
12 expenditures claimed during each fiscal year and for each day
13 of the fiscal year, and shall make that information available
14 on an internet site accessible by the public. The internet
15 site shall be updated as often as practicable as new data
16 becomes available.

17 Sec. 6. NEW SECTION. **421C.3 Withholding tax credits —**
18 **treatment of disallowed claims — notification by department of**
19 **revenue.**

20 1. *Applicability.* Notwithstanding any other provision of
21 law to the contrary, this section shall apply to withholding
22 tax credits listed in section 421C.1, subsection 1, that are
23 disallowed pursuant to section 421C.2, if the withholding
24 tax credit claim is otherwise determined to be valid by the
25 department of revenue.

26 2. *Disallowed claims.* The amount of a withholding tax
27 credit claim disallowed pursuant to section 421C.2 may be
28 carried forward one fiscal year and credited to the withholding
29 tax liability for the following fiscal year, but such
30 carryforward amount shall be amortized and claimed equally over
31 the number of withholding returns the taxpayer will be required
32 to file during the following fiscal year. Carryforward claims
33 provided in this subsection shall be subject to the maximum
34 aggregate limit in section 421C.2 in the next fiscal year and
35 if disallowed pursuant to that section in the next fiscal year

1 shall not be eligible for carryforward to another fiscal year.

2 3. *Notification by department of revenue.* If in any
3 applicable fiscal year the maximum aggregate limit for tax
4 expenditure claims described in section 421C.2, subsection
5 1, is reached, the department of revenue shall, as soon as
6 practicable, notify the economic development authority and each
7 employer, community college, and pilot project city that is a
8 party to a withholding tax credit agreement that the maximum
9 aggregate limit has been reached, the date such limit was
10 reached, and that any withholding tax credit claims made after
11 that date in the fiscal year will be disallowed.

12 Sec. 7. NEW SECTION. **421C.4 Tax credits — treatment of**
13 **disallowed claims.**

14 1. *Applicability.* Notwithstanding any other provision of
15 law to the contrary, this section shall apply to tax credits
16 listed in section 421C.1, subsection 2, that are disallowed
17 pursuant to section 421C.2, if the tax credit claim is
18 otherwise determined to be valid by the department of revenue.

19 2. *Disallowed claims — nonrefundable tax credits.*

20 a. If, but for the disallowance of the tax credit claim, the
21 tax credit would have been nonrefundable to the taxpayer in the
22 tax year for which it is disallowed, whether by operation of
23 law or pursuant to an election by the taxpayer, the disallowed
24 tax credit amount shall be considered eligible for carryforward
25 to a future tax year, but the remaining number of tax years for
26 which the tax credit may be carried forward, if any remain,
27 shall be reduced by one tax year. If the tax year for which the
28 tax credit is disallowed was the final tax year to which the
29 tax credit could be credited, the disallowed tax credit shall
30 not be eligible for carryforward to a future tax year.

31 b. Notwithstanding paragraph "a", if a nonrefundable tax
32 credit listed in section 421C.1, subsection 2, paragraph "f",
33 "g", or "h", is disallowed pursuant to section 421C.2, the
34 amount disallowed may be carried forward one tax year and shown
35 on the final, completed return credited to the tax liability

1 for the following tax year.

2 *c.* A carryforward claim provided in this subsection shall
3 be subject to the maximum aggregate limit described in section
4 421C.2, subsection 1, in the next fiscal year.

5 3. *Disallowed claims — refundable tax credits.* If, but
6 for the disallowance of the tax credit claim, the tax credit
7 would have been refundable to the taxpayer in the tax year
8 for which it is disallowed, whether by operation of law or
9 pursuant to an election by the taxpayer, the disallowed tax
10 credit amount may be carried forward one tax year and shown on
11 the final, completed return credited to the tax liability for
12 the following tax year, and any credit in excess of the tax
13 liability for that tax year shall be refunded. A carryforward
14 claim provided in this subsection shall be subject to the
15 maximum aggregate limit described in section 421C.2, subsection
16 1, in the next fiscal year and if disallowed pursuant to that
17 section in the next fiscal year shall not be eligible for
18 carryforward to another tax year.

19 Sec. 8. NEW SECTION. 421C.5 Sales and use tax refunds —
20 treatment of disallowed claims.

21 1. *Applicability.* Notwithstanding any other provision of
22 law to the contrary, this section shall apply to sales and use
23 tax refunds listed in section 421C.1, subsection 3, that are
24 disallowed pursuant to section 421C.2, if the sales and use
25 tax refund claim is otherwise determined to be valid by the
26 department of revenue.

27 2. *Disallowed claims.* If a sales and use tax refund is
28 disallowed pursuant to section 421C.2, the amount disallowed
29 may be carried forward one fiscal year. The carryforward claim
30 shall be amortized equally over the succeeding fiscal year,
31 and the department of revenue shall issue one warrant at the
32 end of each fiscal quarter on September 30, December 31, March
33 31, and June 30. Each warrant shall be considered a separate
34 tax expenditure claim during that fiscal year for purposes of
35 section 421C.2 and shall be subject to the maximum aggregate

1 limit described in that section and if disallowed pursuant to
2 that section shall not be eligible for carryforward to another
3 fiscal year.

4 **Sec. 9. NEW SECTION. 421C.6 Transfers to the taxpayers**
5 **trust fund.**

6 1. During the fiscal year beginning July 1, 2018, and ending
7 June 30, 2019, there is transferred from the general fund of
8 the state to the tax expenditure limitation account in the
9 taxpayers trust fund created in section 8.57E, an amount equal
10 to the difference between four hundred twenty-six million nine
11 hundred seven thousand one hundred fifty-one dollars and the
12 total tax expenditures claimed in the fiscal year beginning
13 July 1, 2017, and ending June 30, 2018, as determined by the
14 department of revenue under section 421C.2, up to the maximum
15 aggregate limit for tax expenditure claims.

16 2. During the fiscal year beginning July 1, 2019, and ending
17 June 30, 2020, there is transferred from the general fund of
18 the state to the tax expenditure limitation account in the
19 taxpayers trust fund created in section 8.57E, an amount equal
20 to the difference between four hundred thirty-four million
21 three hundred forty-five thousand one hundred forty-two dollars
22 and the total tax expenditures claimed in the fiscal year
23 beginning July 1, 2018, and ending June 30, 2019, as determined
24 by the department of revenue under section 421C.2, up to the
25 maximum aggregate limit for tax expenditure claims.

26 3. During the fiscal year beginning July 1, 2020, and ending
27 June 30, 2021, there is transferred from the general fund of
28 the state to the tax expenditure limitation account in the
29 taxpayers trust fund created in section 8.57E, an amount equal
30 to the difference between four hundred twenty-four million
31 three hundred fifty thousand three hundred ninety-eight dollars
32 and the total tax expenditures claimed in the fiscal year
33 beginning July 1, 2019, and ending June 30, 2020, as determined
34 by the department of revenue under section 421C.2, up to the
35 maximum aggregate limit for tax expenditure claims.

1 written contract relating to the construction or equipping of
2 a facility of the eligible business. Taxes attributable to
3 intangible property and furniture and furnishings shall not
4 be included, but taxes attributable to racks, shelving, and
5 conveyor equipment to be used in a warehouse or distribution
6 center shall be included. Any credit in excess of the tax
7 liability for the tax year is not refundable but the excess
8 for the tax year may be credited to the tax liability for the
9 following seven years or until depleted, whichever occurs
10 earlier. ~~An eligible business may elect to receive a refund of~~
11 ~~all or a portion of an unused tax credit.~~

12 Sec. 13. Section 15.335, subsection 8, Code 2017, is amended
13 by striking the subsection and inserting in lieu thereof the
14 following:

15 8. Any credit in excess of the tax liability is not
16 refundable but the excess for the tax year may be credited to
17 the tax liability for the following tax year.

18 Sec. 14. Section 15E.43, subsection 1, paragraph d, Code
19 2017, is amended by striking the paragraph and inserting in
20 lieu thereof the following:

21 d. Any tax credit in excess of the taxpayer's tax liability
22 for the tax year is not refundable but the excess for the tax
23 year may be credited to the tax liability for the following
24 three years or until depleted, whichever is earlier. A tax
25 credit shall not be carried back to a tax year prior to the tax
26 year in which the taxpayer redeems the tax credit.

27 Sec. 15. Section 404A.2, subsection 4, Code 2017, is amended
28 to read as follows:

29 4. ~~For a tax credit claimed by an eligible taxpayer or~~
30 ~~a transferee for qualified rehabilitation projects with~~
31 ~~agreements entered into on or after July 1, 2014, any~~ Any
32 credit in excess of the taxpayer's tax liability for the tax
33 year ~~may be refunded or, at the taxpayer's election,~~ is not
34 refundable but the excess for the tax year may be credited to
35 the taxpayer's tax liability for the following five years or

1 until depleted, whichever is earlier. A tax credit shall not
2 be carried back to a tax year prior to the tax year in which the
3 taxpayer redeems the tax credit. As used in this subsection,
4 "*taxpayer*" includes an eligible taxpayer or a person transferred
5 a tax credit certificate pursuant to [subsection 3](#).

6 Sec. 16. Section 422.10, subsection 4, Code 2017, is amended
7 by striking the subsection and inserting in lieu thereof the
8 following:

9 4. Any credit in excess of the tax liability is not
10 refundable but the excess for the tax year may be credited to
11 the tax liability for the following tax year.

12 Sec. 17. Section 422.11N, subsection 8, Code 2017, is
13 amended by striking the subsection and inserting in lieu
14 thereof the following:

15 8. Any credit in excess of the tax liability is not
16 refundable but the excess for the tax year may be credited to
17 the tax liability for the following tax year.

18 Sec. 18. Section 422.11O, subsection 6, Code 2017, is
19 amended by striking the subsection and inserting in lieu
20 thereof the following:

21 6. Any credit in excess of the tax liability is not
22 refundable but the excess for the tax year may be credited to
23 the tax liability for the following tax year.

24 Sec. 19. Section 422.11P, subsection 6, Code 2017, is
25 amended by striking the subsection and inserting in lieu
26 thereof the following:

27 6. Any credit in excess of the tax liability is not
28 refundable but the excess for the tax year may be credited to
29 the tax liability for the following tax year.

30 Sec. 20. Section 422.11Y, subsection 7, Code 2017, is
31 amended by striking the subsection and inserting in lieu
32 thereof the following:

33 7. Any credit in excess of the tax liability is not
34 refundable but the excess for the tax year may be credited to
35 the tax liability for the following tax year.

1 Sec. 21. Section 422.12A, subsection 3, Code 2017, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

4 3. Any credit in excess of the tax liability is not
5 refundable but the excess for the tax year may be credited to
6 the tax liability for the following tax year.

7 Sec. 22. Section 422.12B, subsection 1, paragraph b, Code
8 2017, is amended by striking the paragraph and inserting in
9 lieu thereof the following:

10 *b.* Any credit in excess of the tax liability is not
11 refundable but the excess for the tax year may be credited to
12 the tax liability for the following tax year.

13 Sec. 23. Section 422.12C, subsection 3, Code 2017, is
14 amended by striking the subsection and inserting in lieu
15 thereof the following:

16 3. Any credit in excess of the tax liability is not
17 refundable but the excess for the tax year may be credited to
18 the tax liability for the following tax year.

19 Sec. 24. Section 422.33, subsection 5, paragraph f, Code
20 2017, is amended by striking the paragraph and inserting in
21 lieu thereof the following:

22 *f.* Any credit in excess of the tax liability is not
23 refundable but the excess for the tax year may be credited to
24 the tax liability for the following tax year.

25 Sec. 25. Section 422.33, subsection 9, paragraph a, Code
26 2017, is amended to read as follows:

27 *a.* The taxes imposed under [this division](#) shall be reduced by
28 an assistive device tax credit. A small business purchasing,
29 renting, or modifying an assistive device or making workplace
30 modifications for an individual with a disability who is
31 employed or will be employed by the small business is eligible,
32 subject to availability of credits, to receive this assistive
33 device tax credit which is equal to fifty percent of the
34 first five thousand dollars paid during the tax year for the
35 purchase, rental, or modification of the assistive device

1 or for making the workplace modifications. Any credit in
2 excess of the tax liability ~~shall be refunded with interest~~
3 ~~computed under section 422.25~~. In lieu of claiming a refund,
4 ~~a taxpayer may elect to have the overpayment shown on the~~
5 ~~taxpayer's final, completed return~~ is not refundable but the
6 excess for the tax year may be credited to the tax liability
7 for the following tax year. If the small business elects to
8 take the assistive device tax credit, the small business shall
9 not deduct for Iowa tax purposes any amount of the cost of an
10 assistive device or workplace modifications which is deductible
11 for federal income tax purposes.

12 Sec. 26. Section 422.33, subsection 11A, paragraph b, Code
13 2017, is amended by striking the paragraph and inserting in
14 lieu thereof the following:

15 b. Any ethanol promotion tax credit which is in excess of
16 the taxpayer's tax liability is not refundable but the excess
17 for the tax year may be credited to the tax liability for the
18 following tax year in the same manner as provided in section
19 422.11N.

20 Sec. 27. Section 422.33, subsection 11B, paragraph b, Code
21 2017, is amended by striking the paragraph and inserting in
22 lieu thereof the following:

23 b. Any E-85 gasoline promotion tax credit which is in excess
24 of the taxpayer's tax liability is not refundable but the
25 excess for the tax year may be credited to the tax liability
26 for the following tax year in the same manner as provided in
27 section 422.11O.

28 Sec. 28. Section 422.33, subsection 11C, paragraph b, Code
29 2017, is amended by striking the paragraph and inserting in
30 lieu thereof the following:

31 b. Any biodiesel blended fuel tax credit which is in excess
32 of the taxpayer's tax liability is not refundable but the
33 excess for the tax year may be credited to the tax liability
34 for the following tax year in the same manner as provided in
35 section 422.11P.

1 Sec. 29. Section 422.33, subsection 11D, paragraph b, Code
2 2017, is amended by striking the paragraph and inserting in
3 lieu thereof the following:

4 b. Any E-15 plus gasoline promotion tax credit which is
5 in excess of the taxpayer's tax liability is not refundable
6 but the excess for the tax year may be credited to the tax
7 liability for the following tax year in the same manner as
8 provided in section 422.11Y.

9 Sec. 30. EFFECTIVE DATE. This division of this Act takes
10 effect January 1, 2018.

11 Sec. 31. APPLICABILITY. This division of this Act applies
12 to tax years beginning on or after January 1, 2018.

13 EXPLANATION

14 The inclusion of this explanation does not constitute agreement with
15 the explanation's substance by the members of the general assembly.

16 This bill relates to state revenue and finance by limiting
17 the total amount of certain tax expenditures that may be
18 claimed in a fiscal year, providing for transfers to the
19 taxpayers trust fund, and eliminating the refundability of Iowa
20 tax credits.

21 DIVISION I — TAX EXPENDITURE LIMITATION. Division I
22 limits the total amount of certain tax expenditures that may
23 be claimed in a fiscal year and provides for transfers to the
24 taxpayers trust fund.

25 For purposes of the bill, "tax expenditure" means all of
26 the following: the accelerated career education program
27 withholding tax credit, the new jobs tax credit from
28 withholding available under the industrial new jobs training
29 program, the targeted jobs withholding tax credit, the
30 agricultural assets transfer tax credit, the custom farming
31 contract tax credit, the farm to food donation tax credit, the
32 charitable conservation contribution tax credit, the school
33 tuition organization tax credit, the tuition and textbook
34 tax credit, the volunteer fire fighter and emergency medical
35 services personnel tax credit, the reserve peace officer tax

1 credit, the adoption tax credit, the child and dependent care
2 tax credit, the early childhood development tax credit, the
3 earned income tax credit, the geothermal heat pump tax credit,
4 the geothermal tax credit, the solar energy system tax credit,
5 the wind energy production tax credit, the renewable energy
6 production tax credit, the biodiesel blended fuel tax credit,
7 the E-15 plus gasoline promotion tax credit, the E-85 gasoline
8 promotion tax credit, the ethanol promotion tax credit, the
9 renewable chemical production tax credit, the endow Iowa tax
10 credit, the investment tax credit available under the high
11 quality jobs program and enterprise zone program, the insurance
12 premiums tax credit available under the high quality jobs
13 program and enterprise zone program, the new jobs tax credit
14 available under the industrial new jobs training program, the
15 innovation fund investment tax credit, the Iowa fund of funds
16 tax credit, the venture capital fund investment tax credit, the
17 investment tax credit available under the workforce housing
18 tax incentive program, the research activities tax credit,
19 the supplemental research activities tax credit available
20 under the high quality jobs program and the enterprise zone
21 program, the assistive device tax credit, the corporate tax
22 credit for certain sales tax paid by third-party developers
23 available under the high quality jobs program, the historic
24 preservation and cultural and entertainment district tax
25 credit, the redevelopment tax credit, the tax credit for
26 investments in a qualifying business, the high quality jobs
27 program sales and use tax refund, the enterprise zone program
28 sales and use tax refund, the enterprise zone program eligible
29 housing business sales and use tax refund, the sales and use
30 tax refund available under the workforce housing tax incentive
31 program, the sales and use tax refund available under the wind
32 energy production tax credit, and the sales and use tax refund
33 available under the renewable energy production tax credit.

34 The bill limits the maximum aggregate amount of tax
35 expenditures that may be claimed in fiscal years beginning

1 on or after July 1, 2017 (tax expenditure limit). The bill
2 provides that the maximum aggregate amount of tax expenditures
3 that may be claimed for FY 2017-2018, FY 2018-2019, and FY
4 2019-2020 is \$400 million, \$390 million, and \$380 million,
5 respectively. For each fiscal year beginning on or after July
6 1, 2020, the maximum aggregate amount of tax expenditures
7 that may be claimed in a fiscal year is \$370 million. Any
8 tax expenditure claim considered to be made in a fiscal year
9 but after the date the applicable tax expenditure limit is
10 reached is disallowed. In addition, all tax expenditure claims
11 considered to be made on the date the tax expenditure limit
12 is exceeded for a fiscal year shall be reduced in a prorated
13 fashion, if necessary, until the tax expenditure limit is
14 reached.

15 The bill provides that a tax expenditure shall be considered
16 claimed to the extent the claim reduces tax liability or
17 is issued as a refund, and that tax expenditure claims are
18 considered to be made on the date the claim is accepted by
19 the department of revenue (department). Tax expenditure
20 claims must be accepted in the order they are received by
21 the department. A tax expenditure claim shall be considered
22 accepted by the department when the department determines that
23 the final, completed withholding return, tax return, or sales
24 and use tax refund claim form on which the tax expenditure is
25 reported is complete and capable of being processed by the
26 department and if the tax expenditure claim appears valid
27 on its face, with one exception. If for a fiscal year the
28 tax expenditure limit is reached and a tax expenditure claim
29 is made on a return or form that was due during that fiscal
30 year, including extensions, but is actually filed late and
31 received by the department in the following fiscal year, the
32 tax expenditure claim shall be considered made in the previous
33 fiscal year but after the date the tax expenditure limit had
34 been reached, and shall be disallowed.

35 If a tax expenditure is accepted and considered claimed by

1 the department, and the taxpayer later files an amended return
2 or form that increases the original tax expenditure claim, the
3 tax expenditure reported on the amended return or form shall
4 be considered a new tax expenditure claim to the extent it
5 exceeds the previous claim amount. However, if the original
6 tax expenditure claim was disallowed pursuant to the bill, the
7 entire tax expenditure claim reported on the amended return or
8 form shall be disallowed.

9 The bill provides that if a tax expenditure claim reported
10 on an amended return or form is less than the original tax
11 expenditure claim, the total amount of tax expenditure claims
12 considered to be made in a previous fiscal year for purposes
13 of the bill shall not decrease.

14 Furthermore, if a tax expenditure claim is later adjusted
15 following an audit or other similar review by the department,
16 that audit adjustment shall not cause the total amount of tax
17 expenditure claims the department considers to be made in a
18 fiscal year to increase or decrease.

19 The bill requires the department to develop a system to
20 track the amount of tax expenditures claimed during each day
21 of the fiscal year, and to make that information available
22 on an internet site accessible by the public. The internet
23 site shall be updated as often as practicable as new data
24 becomes available. The bill also requires the department to
25 notify the economic development authority and each employer,
26 community college, and pilot project city that is a party to a
27 withholding tax credit agreement when the tax expenditure limit
28 has been reached in a fiscal year.

29 The bill provides that a tax expenditure that is disallowed
30 because a tax expenditure limit has been reached may be claimed
31 in a future fiscal year or tax year on a limited basis. The
32 bill allows disallowed withholding tax credits to be carried
33 forward one fiscal year and credited to the taxpayer's
34 withholding tax liability for the following fiscal year, but
35 such carryforward amount must be amortized and claimed equally

1 over the number of withholding returns the taxpayer will be
2 required to file in the next fiscal year, and such amounts are
3 subject to the tax expenditure limit in the next fiscal year.

4 For nonrefundable tax credits that under another provision
5 of the law provide that the unused amount may be carried
6 forward for a certain number of tax years, the bill provides
7 that a nonrefundable tax credit that is disallowed because of
8 the expenditure limit is eligible to be claimed in a future
9 tax year, but the remaining number of carryforward years, if
10 any remain, shall be reduced by one tax year. If the tax year
11 for which the tax credit is disallowed was the final tax year
12 to which the tax credit could be credited, the disallowed tax
13 credit shall not be eligible for carryforward to a future tax
14 year. For the tuition and textbook tax credit, the volunteer
15 fire fighter and emergency medical services personnel tax
16 credit, and the reserve peace officer tax credit, which under
17 current law are nonrefundable and do not allow any unused
18 amount to be carried forward to another tax year, the bill
19 allows such disallowed tax credit amounts to be carried forward
20 one tax year, but provides that the carryforward amounts are
21 subject to the tax expenditure limit in the next fiscal year.

22 The bill allows disallowed refundable tax credits to be
23 carried forward one tax year and treated as a refundable
24 tax credit in the following tax year, and provides that the
25 carryforward amounts are subject to the tax expenditure limit
26 in the next fiscal year.

27 The bill allows disallowed sales and use tax refund claims
28 to be carried forward one fiscal year and amortized equally
29 over that fiscal year in the form of a warrant issued by the
30 department at the end of each quarter of the fiscal year on
31 September 30, December 31, March 31, and June 30. Each warrant
32 is considered a separate tax expenditure claim during that
33 fiscal year and is subject to the tax expenditure limit in that
34 fiscal year.

35 Finally, following the first four fiscal years in which

1 the bill limits tax expenditure claims, the bill transfers
2 from the general fund of the state to the taxpayers trust fund
3 created in Code section 8.57E the difference between the amount
4 of tax expenditure claims the department projected would be
5 claimed for the applicable fiscal year in the department's Tax
6 Credits Contingent Liabilities Report published on December
7 12, 2016 (\$426,907,151 for FY 2017-2018; \$434,345,142 for FY
8 2018-2019; \$424,350,398 for FY 2019-2020; and \$437,036,904
9 for FY 2020-2021), and the amount actually considered to be
10 claimed by the department under the bill, up to the applicable
11 tax expenditure limit. Amounts transferred to the taxpayers
12 trust fund are credited to a tax expenditure limitation
13 account created in the bill within the trust fund, and the bill
14 provides that amounts in that account will not be used for
15 purposes of the Iowa taxpayers trust fund tax credit under Code
16 section 422.11E.

17 DIVISION II — TAX CREDIT REFUNDABILITY ELIMINATION.

18 Division II eliminates the refundability of Iowa's refundable
19 tax credits. Tax credits affected include the adoption tax
20 credit, the assistive device tax credit, the biodiesel blended
21 fuel tax credit, the child and dependent care tax credit, the
22 early childhood development tax credit, the E-15 plus gasoline
23 promotion tax credit, the E-85 gasoline promotion tax credit,
24 the ethanol promotion tax credit, the earned income tax credit,
25 the research activities tax credit and supplemental research
26 activities tax credit, the renewable chemical production tax
27 credit, the corporate tax credit for certain sales taxes paid
28 by third-party developers available under the high quality
29 jobs program, the historic preservation and cultural and
30 entertainment district tax credit, the redevelopment tax
31 credit, and the tax credit for investments in a qualifying
32 business.

33 For certain tax credits that were previously refundable to
34 certain types of taxpayers or at the option of the taxpayer,
35 the bill retains the existing carryforward amounts in those

1 credits. This includes a five-year carryforward period
2 for the redevelopment tax credit, a seven-year carryforward
3 period for the corporate tax credit for certain sales taxes
4 paid by third-party developers available under the high
5 quality jobs program, a three-year carryforward period for
6 the tax credit for investments in a qualifying business, and
7 a five-year carryforward for the historic preservation and
8 cultural and entertainment district tax credit. For all other
9 previously refundable tax credits, the bill provides a one-year
10 carryforward period.

11 The division takes effect January 1, 2018, and applies to tax
12 years beginning on or after that date.